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MarketView
Suburban Maryland Office

SECOND QUARTER 2008

"If you look at the space delivered since 2006 and what is under construction, we have three years of supply available; and, that is under good market conditions."

- Dennis Owen, Senior Vice President

QUICK STATS

	Current	Change from last Yr.	Change from last Qtr.
Vacancy	11.38%	↑	↑
Lease Rates	$27.32 FS	↑	↔
YTD Net Absorption*	(377,173) SF	↓	↓
YTD Deliveries	549,152 SF	↓	↓
Under Construction	2,753,418 SF	↑	↓

* The arrows are trend indicators over the specified time period and do not represent a positive or negative value. (e.g., absorption could be negative, but still represent a positive trend over a specified period.) The time period is year to date.

HOT TOPICS

- Leasing inside the Capital Beltway holding steady.
- Landlords becoming more aggressive with concession packages.
- Overall, renewals remain high, yet only one of quarter's top ten transactions were renewals.

Economic uncertainty, a lack of federal government leasing and negligible employment growth have led to a contraction in demand for office space in the Suburban Maryland office market. During the quarter, net absorption, the primary measurement of demand, totaled negative 735,644 square feet. This has reversed 65.6% of all demand gains experienced since the beginning of 2007. Two of the most important sectors of the regional economy were responsible for the bulk of this contraction. Over the 12 months ending May 2008, the Professional and Business Services and Financial Services sectors contracted by 2,600 and 900 jobs, respectively. Under the most common assumptions this represents a 600,000 to 700,000 square foot loss in demand.

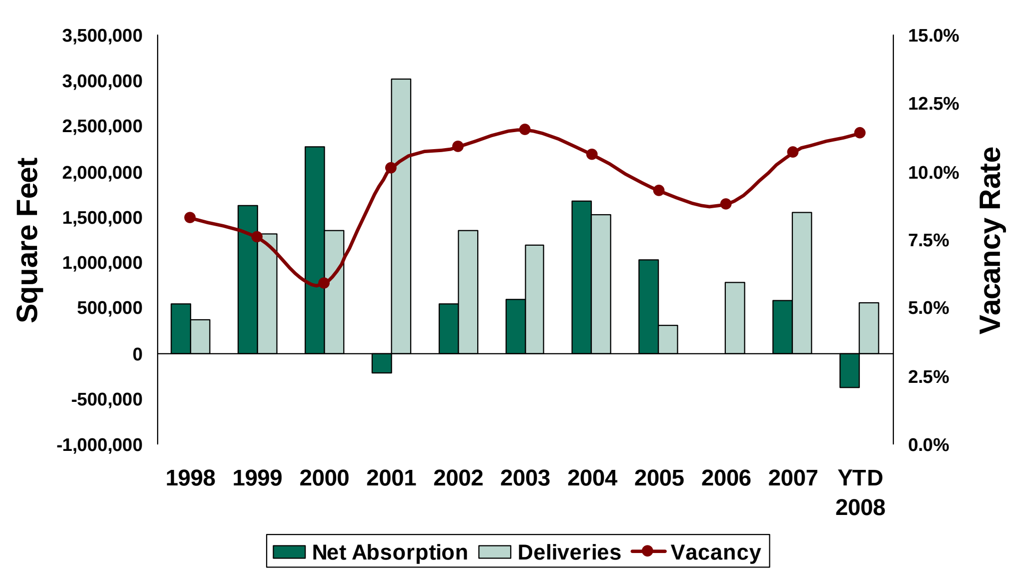
In contrast, the government services sector of the economy expanded by 4,400 jobs. With the exception of the Nuclear Regulatory Commission, these jobs have either been housed in government-owned facilities or in existing leased space, which has minimally impacted the market. It also points to potential pent-up demand from groups like the National Institutes of Health and the Food and Drug Administration.

Even as demand has fallen incrementally, developers have yet to react to the change in the demand-side fundamentals. Although, the construction pipeline shrank during the quarter, developers commenced new projects. During the quarter, 77,238 square feet of space delivered, decreasing the pipeline 20,655 square feet and leaving 2.7 million square feet under construction. Though down over the quarter, it is up from 1.8 million square feet reported this time last year. Additionally, the product under construction has become increasingly speculative in nature. Of the space currently under construction, 25.1% is preleased. This is down from the 30.7% of the space preleased during second quarter 2007.

The delivery of new vacant space has magnified the impact of shrinking demand on vacancy rates. The market ended the quarter with a vacancy rate of 11.38%, up from 10.46% since the beginning of the year and up from 8.80% at the beginning of 2007. The delivery of new space accounted for 43.36% of the year-to-date increase in the vacancy rate. Without the delivers, the vacancy rates would still be below 11%.

The speed and breadth of the increase in the vacancy has caused landlords to offer more concessions in order to attract tenant to their buildings, but they have been hesitant to lower their asking rental rates. Across the entire market, the direct average asking rate has remained relativity flat over the quarter, dropping one cent from $27.33 to $27.32 per square foot. However, a few pockets of decreasing asking rates did occur. Though one quarter does not make a trend, landlords in Frederick and Prince George's Counties adjusted their expectations a collective $1.40 per square foot. The majority of this decrease occurred in properties with vacancies that have been on the market for several quarters.

Suburban MD Historical Net Absorption, Deliveries and Vacancy



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Submarket	Inventory[1] (SF)	Total Vacancy Rate	YTD Absorption (SF)	YTD Deliveries (SF)	SF Under Construction	Avg. Asking Rent/SF
Gaithersburg	**4,912,462**	14.41%	62,453	63,101	-	$25.97
Germantown	**2,318,722**	9.12%	6,467	14,137	156,638	$21.86
North Bethesda	**10,166,701**	11.38%	(222,141)	-	240,731	$32.83
North Rockville	**11,132,544**	12.78%	73,037	141,326	539,800	$29.95
Rockville	**7,145,307**	9.27%	10,079	183,788	616,093	$33.18
Subtotal I-270 Corridor	*35,675,736*	*11.66%*	*(70,105)*	*402,352*	*1,553,262*	*$30.25*
Bethesda/Chevy Chase	**10,957,983**	6.00%	(31,378)	-	295,000	$34.41
Kensington/Wheaton	**1,656,956**	5.07%	(26,551)	-	-	$23.40
North Silver Spring/Rt. 29	**2,775,374**	5.80%	(4,850)	-	51,716	$23.57
Silver Spring	**6,471,691**	7.95%	(99,749)	-	-	$28.66
Montgomery County	**57,537,740**	**9.70%**	**(232,633)**	**402,352**	**1,899,978**	**$30.29**
Beltsville/Calverton	**1,536,110**	9.92%	14,450	-	-	$22.04
Bowie	**801,644**	9.67%	62,590	-	144,881	$26.10
Branch Avenue	**1,337,251**	6.71%	5,516	-	59,753	$18.97
College Park	**3,606,649**	13.37%	(50,930)	-	391,762	$21.96
Greenbelt	**3,156,179**	23.47%	(32,240)	-	-	$22.34
Lanham/Landover	**3,495,468**	19.01%	(123,588)	-	-	$22.63
Largo/Capital Heights	**1,034,817**	22.11%	(18,220)	-	-	$25.47
Laurel	**1,895,755**	10.69%	(1,254)	-	-	$20.66
Oxon Hill/Ft. Washington	**1,016,010**	23.79%	(25,547)	60,000	-	$29.27
Penn Ave/Upper Marlboro	**801,133**	28.90%	13,348	-	-	$21.86
Prince George's County	**18,681,016**	**16.66%**	**(155,875)**	**60,000**	**596,396**	**$22.88**
Frederick County	**4,837,927**	**11.05%**	**11,335**	**86,800**	**257,044**	**$23.35**
Suburban Maryland Total	**81,056,683**	**11.38%**	**(377,173)**	**549,152**	**2,753,418**	**$27.32**

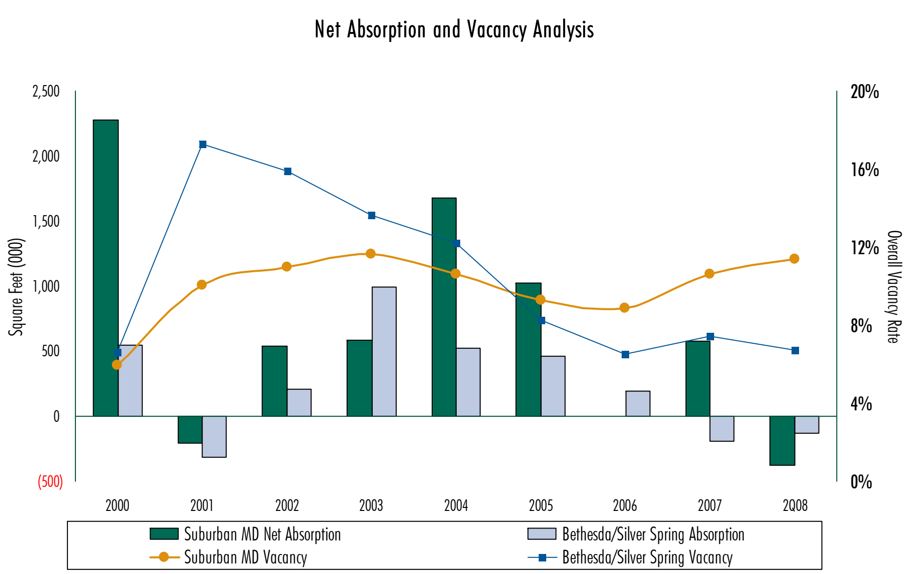
[1]*Total rentable area includes single tenant and owner occupied buildings.*

SPOTLIGHT: Bethesda/Chevy Chase and Silver Spring

Source: CBRE Research

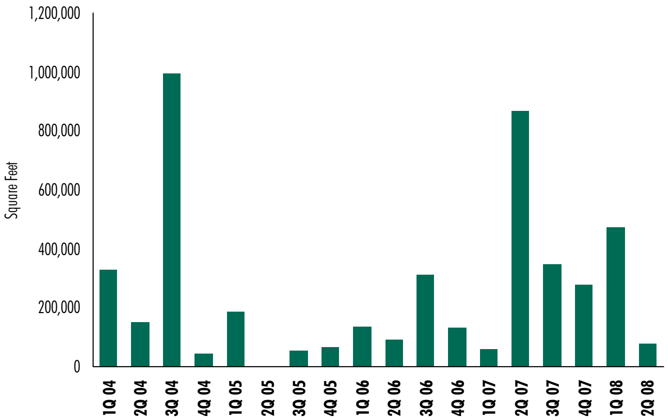
Bethesda/Chevy Chase and Silver Spring are the two core urban submarkets in Suburban Maryland, and the recent spate of negative absorption is seen as a good thing for them. With a combined vacancy rate of 6.7%, the submarkets have limited options for tenants to grow. The scarcity of space is even more prevalent in Class A product, where the combined direct vacancy rate is 2.6% with an additional 3.1% in sublet space.

Because space is so scarce, and the barriers to development are high, the only way a company can grow within these submarkets is for another company to move out of the submarkets. As a result, vacancy rates and net absorption "see-saw", as a tenant must relocate out of these submarkets in order for another tenant to expand. During the second quarter, a tenant returned 83,568 square feet of space in Silver Spring and relocated to Germantown. This space is not expected to remain on the market long. Expect this "see-saw" approach to leasing to continue into the foreseeable future.



DELIVERIES

Square Feet Delivered 77,238 SF

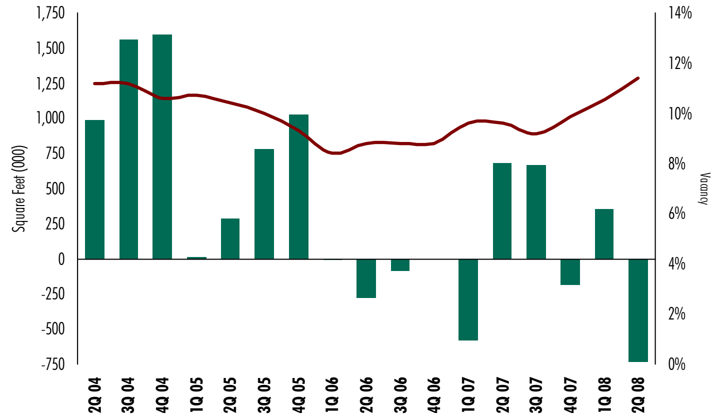


The pace of delivery activity slowed over the quarter as well as over the last 12 months. However, this quarter's deliveries only had 20.5% of the space preleased, compared to a 22.4% prelease rate over the last four quarters. Two buildings in the I-270 Corridor delivered in the second quarter of 2008 with only 20.5% preleased. In Germantown, 13097 Wisteria Drive delivered 14,137 square feet to the market with a prelease to Water for Life USA, LLC. The New 200, 200 Professional Drive in Gaithersburg, was completely renovated while Ameridream remained in the building. The 63,101-square foot building was finished in May.

About 1.1 million square feet is anticipated to deliver in the second half of the year, yet only 6.7% is preleased. Only one building, 2000 Tower Oaks Boulevard, has seen preleasing activity. Of the product expected to be completed over the next two quarters, 83% is in Montgomery County. The 2009 pipeline anticipates almost 1.7 million square feet coming to the market, with 51% in the I-270 Corridor.

VACANCY/NET ABSORPTION

Absorption (735,644) SF
Vacancy 11.38%

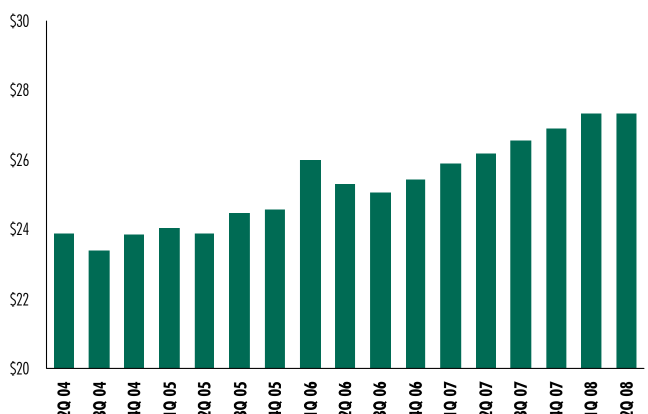


The vacancy rate ended the second quarter at 11.29%, up from 10.56% at the end of the first quarter. Both direct and sublease space had increases that contributed to this rise. One notable contributor to the rise in direct space was Lockheed Martin, which gave back 120,000 square feet to the market and countered the 128,164 square feet absorbed by five of the top six transactions. MedImmune was responsible for one of the largest expansions of the quarter, leasing an additional 45,000 square feet at its current location in Gaithersburg.

Prince George's County's vacancy rate increased over one percent as Lanham/Landover and Largo/Capital Heights had increases in vacancy of 3.3% and 2.97%, respectively. In Lanham/Landover, Merkle Direct Marketing moved to a build-to-suit out of the market in Howard County and put 80,180 square feet back on the market. In Largo/Capital Heights, multiple tenants moved out of 25,000 square feet at 9200 Basil Court.

AVERAGE ASKING LEASE RATES

Avg. Asking Lease Rate $27.32



Rental rates started to shows signs of an adjustment in Suburban Maryland. Between first quarter 2007 and one year later, asking rents grew by an average of 1.34%. Landlords started to react to heightened competition as presented by additional vacant space. Concession packages have started to increase as landlords push to attract tenants, while achieving pro forma face rental rates. Over the quarter, rental rate growth was flat across all space, and down $0.12 in Class A space, in the first indications of a correction. Overall rent growth was 4.4% from one year ago.

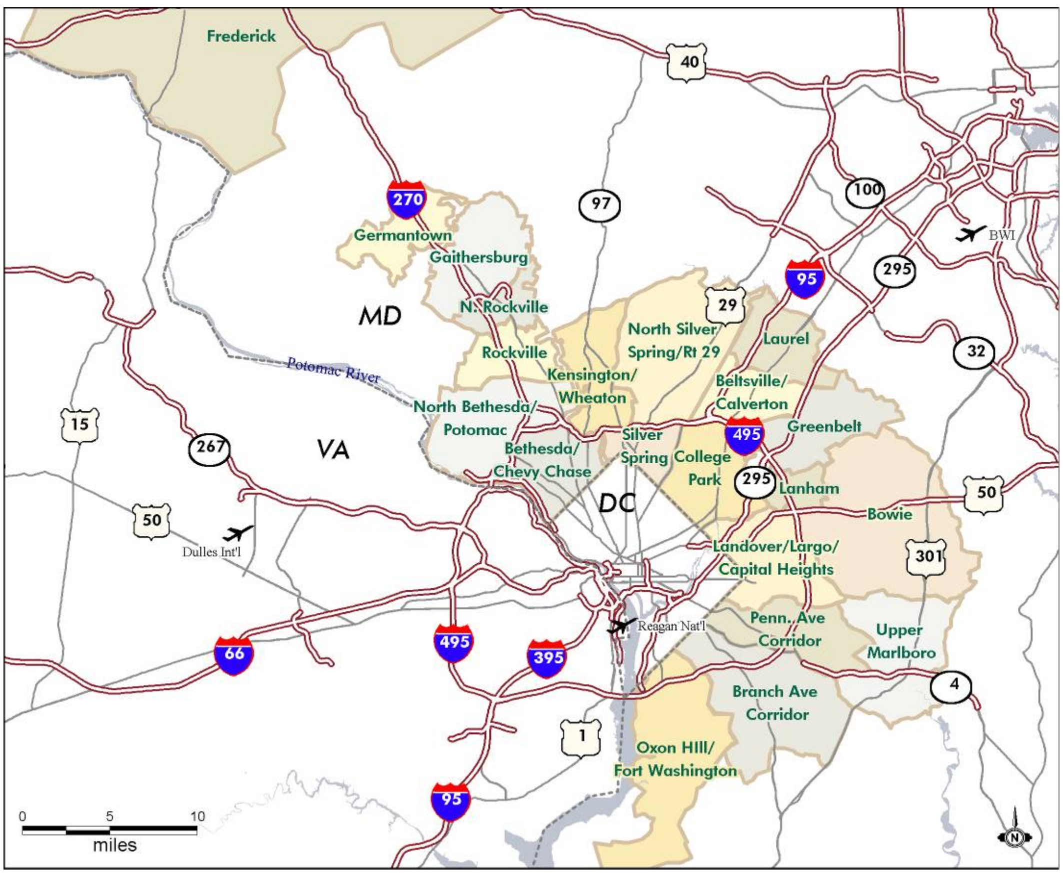
MARKET OUTLOOK

Without major adjustments to the economy, employment growth is expected to remain lackluster, pointing at best towards flat demand growth. However, as new supply comes online, vacancy rates are only expected to inch higher over the next 18 months. Developers are already starting to react by limiting development activity, but given the lead time to undertake new construction, a few new projects are likely to break ground in the near future. The speed of the decline in development activity will limit the downward pressure on rental rates and will help determine the depth of the downturn in the market. Despite the delivery of new, more expensive space, expect rental rate growth to remain flat to declining over the next few quarters.

TOP SECOND QUARTER 2008 SUBURBAN MARYLAND LEASE TRANSACTIONS

Size (SF)	Tenant	Address	Submarket	Lease Type
123,000	IARPA	5850 University Research Boulevard	College Park	Prelease
80,000	Aronson & Company	805 King Farm Boulevard	North Rockville	Relet
53,380	NextPointe	1445-1455 Research Boulevard	North Rockville	Relet
51,007	EG&G	20501 Seneca Meadows Parkway	Germantown	Relet
45,000	MedImmune	101 Orchard Ridge Road	Gaithersburg	Expansion
30,380	Nuclear Regulatory Commission	12300 Twinbrook Parkway	Rockville	Renewal

SUBURBAN MARYLAND SUBMARKET MAP



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AVAILABILITY RATE
Available square feet divided by the net rentable area.

AVAILABLE SQUARE FEET
Available building area which is either physically vacant or occupied.

AVERAGE ASKING LEASE RATE
Rate determined by multiplying the asking lease rate for each building by its available space, summing the products, then dividing by the sum of the available space with net leases for all buildings in the summary.

FULL SERVICE
Rent is inclusive of operating expenses and rates

MARKET COVERAGE
Includes all competitive office buildings 10,000 square feet and greater in size. Includes single tenant and owner occupied inventory.

NET ABSORPTION
The change in occupied square feet from one period to the next.

NET LEASES
Includes all lease types whereby the tenant pays an agreed rent plus most, or all, of the operating expenses and taxes for the property, including utilities, insurance and/or maintenance expenses.

NET RENTABLE AREA
The gross building square footage minus the elevator core, flues, pipe shafts, vertical ducts, balconies, and stairwell areas.

NORMALIZATION
Adjustments to the market, base, number and/or square footage of buildings in previous quarters to match adjustments made to the current base. Availability and vacancy in previous quarters reflect the adjustments.

OCCUPIED SQUARE FEET
Building area not considered vacant.

UNDER CONSTRUCTION
Buildings which have begun construction as evidenced by site excavation or foundation work.

VACANCY RATE
Vacant building feet divided by the net rentable area.

VACANT SQUARE FEET
Existing building area which is physically vacant or immediately available.

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